

HOUSING MARKET OUTLOOK

Edmonton CMA



Canada Mortgage and Housing Corporation

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New Home Market

New Home Construction to Remain at High levels

Total housing starts in 2006 exceeded the previous year's tally by over 12 per cent and represented the second best year on record. Moreover, last year's performance stands as an unprecedented fifth consecutive year that new home construction across Metro topped 11,000 units on an annual basis. In 2007, total starts will remain above levels achieved in 2005 but fall short of the volumes set last year. Despite strong job creation this year, a slight moderation in demand will come from lower in-

migration coupled with some price resistance from buyers who will find an improved selection of units for sale in the existing home market. In 2008, total starts will experience further declines to around 13,000 units, which is slightly below the total reached in 2005.

Single-Detached Starts Throttle-Back in '07

Last year, single-detached starts eclipsed the output of 2005 by almost 19 per cent

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Total housing starts pull back slightly this year, with increased multiple unit activity countered by a slowdown in single-detached starts. Further declines are expected in 2008, with total starts near 13,000 units.

3 Resale Market

Sales in the existing home market set another record in 2007 before pulling back in 2008 as price gains take a toll on demand.

5 Rental market

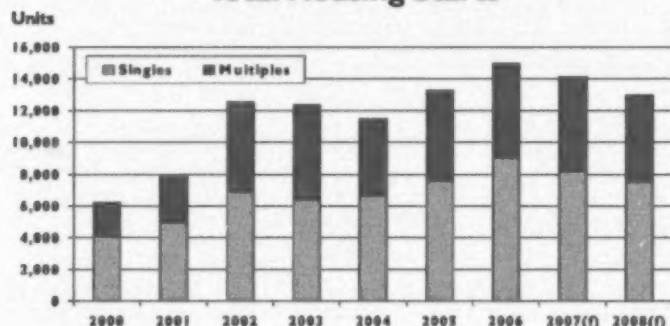
Apartment vacancies remain very tight due to strong in-migration and escalating home ownership costs. Expect strong rent increases both this year and next.

6 Economy

Strong economic growth is sustained by continued energy-related capital investment.

Figure 1

Total Housing Starts



Source: CMHC, CMHC Forecast

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and set a new annual record of 9,064 units. Much of this increase took place in the suburban areas outside of Edmonton City such as Leduc City and Sturgeon County. While the city of Edmonton experienced a seven per cent rise in single-detached starts over 2005, the municipalities outside of Edmonton saw a 42 per cent gain the number of new houses started last year.

Single-detached starts will drop by 10 per cent across the region this year to 8,150 units with further declines anticipated in 2008. Soaring prices will encourage more buyers to look at new multi-family units this year and a moderate improvement in resale inventory should also draw away some prospective buyers. An up-tick in unsold spec homes this spring will also cause some retrenchment in starts, as will a shortage of lots in some choice locations.

Figure 2 shows the trend lines for new single-detached show home and spec unit inventories. Total inventories moved back above the 500 unit mark in February for the first time since August of last year. The main difference was the rise in the number of spec homes relative to show homes. Builders culled their supply of show homes this winter, as new display models were being readied for the important spring sales season.

Table 1
New Single-Family Absorptions by Area
January - December (%chg 2005/2006)

	Absorptions			Average Price (\$)			Median Price (\$)		
	2005	2006	%chg	2005	2006	%chg	2005	2006	%chg
North Central	56	90	60.7%	266,841	363,408	39.3%	249,750	285,000	14.1%
Northeast	589	728	23.6%	254,675	273,965	7.6%	249,500	269,900	8.2%
Northwest	940	759	-19.3%	264,308	284,016	7.5%	262,500	275,000	4.8%
South Central	49	55	12.2%	392,469	422,375	7.6%	339,800	365,900	7.7%
Southeast	732	780	6.6%	241,637	304,721	26.1%	225,050	277,100	23.1%
Southwest	1,405	1,551	10.4%	286,835	315,798	10.1%	260,100	290,400	11.6%
West	658	692	5.2%	265,773	316,744	19.2%	246,400	284,050	15.3%
Total Edmonton City	4,429	4,655	5.1%	268,818	304,538	13.6%	258,000	281,200	12.5%
Fort Saskatchewan City	107	159	48.6%	253,543	337,158	33.0%	233,800	301,000	28.7%
Leduc City	140	201	43.6%	242,376	280,615	15.8%	234,950	265,000	12.8%
Parkland County	185	139	-24.9%	269,002	304,342	13.1%	253,698	300,000	18.3%
Spruce Grove City	223	290	30.0%	218,973	242,814	10.9%	212,620	232,988	9.6%
St. Albert City	356	294	-17.4%	325,017	410,594	26.3%	300,850	379,900	26.3%
Stony Plain Town	145	121	-16.6%	215,082	256,187	19.1%	207,454	243,808	17.5%
Strathcona County	724	604	-16.6%	305,264	364,210	19.3%	264,000	322,000	22.0%
Total Rural Municipalities	2,492	2,484	-0.3%	268,667	316,575	17.8%	241,000	284,900	18.2%
Grand Total	6,921	7,139	3.1%	268,252	308,726	15.1%	248,300	282,500	13.8%

Source: CMHC

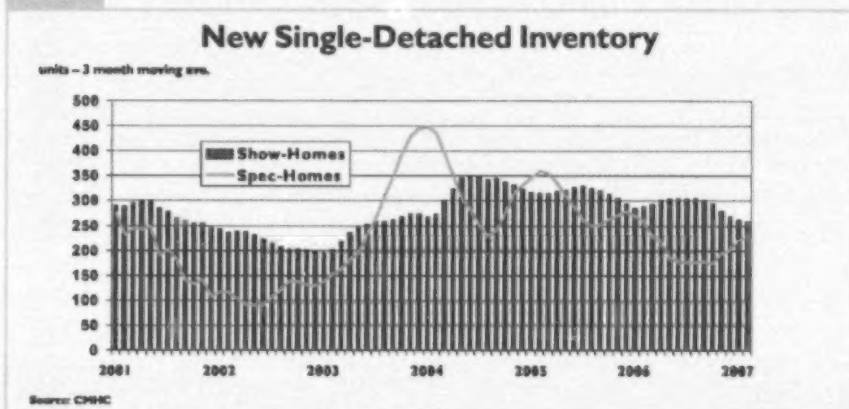
Meanwhile, the record number of single-detached units under construction in the final months of 2006 will translate into a growing supply of spec units for sale across the region in the first half of 2007. How much production backs-off from last year's torrid pace will be impacted by how fast these spec homes get absorbed this spring. With price points moving above \$400,000 for the majority of these spec units, builders will need to keep a sharp eye on resale inventory. Supplies on the MLS® are poised to move higher this spring as existing home owners list their houses prior to the

completion of the new unit they ordered last year.

New House Prices Escalate in 2007

New house prices, as measured through CMHC's monthly market absorption survey, increased by 15 per cent in 2006 to an average of \$308,726. However, that average reflects the price of homes that were completed and absorbed in 2006, but likely negotiated and priced before construction began - often as much as 12 months prior. Therefore, it can be argued that our 2006 average new house price reflected the price inflation on sales made one year earlier. To the end of the first quarter, average prices were 34 per cent above those recorded in the first three months of 2006. Despite lower costs for inputs such as lumber and OSB, builders are facing an array of higher prices for serviced land, labour, and many other building components. This is evident in Statistics Canada's New House Price Index (NHPI) for Edmonton, which recently indicated a record 43 per cent year-over-year gain in the cost of building

Figure 2



a home. Accordingly, we expect to end the year with an average absorbed new house price of close to \$415,000, with prices growing to near \$495,000 on average in 2008.

Multiple Dwelling Starts Remain At High Levels

Last year's moderate four per cent gain in multiple-unit starts represented the best year for the region since 2003. Multiple dwelling starts, which include semi-detached, row and apartment units, will reach 6,000 units this year for the first time since 1982. Tight inventories in both the new and resale markets will sustain demand for new condominiums due to their cost advantage over lower-density detached housing. Rental starts, which experienced a big decline in 2006, are not expected to show much improvement this year due to the widened gap between market rents and those required to make new units financially viable. Multi-unit activity levels will moderate slightly in 2008 but should still approach the 5,500-unit mark. While the ratio of rental to homeowner units should improve in 2008 due to sustained increases in market rents, the lion's share of multiples will be targeted at either the condo or freehold ownership market.

Multi-unit inventories at the end of March stood at 299 units, representing a 66 per cent decline from the number of completed and unoccupied units reported across Metro at the end of the first quarter of 2006. This represented the first time since August 1999 that inventories have fallen below 300 units. While the volume of multiples under construction remains very high by historic standards, we do not anticipate much change in the inventory going forward which should underpin continued strength in new construction in the months ahead. Price points for all multi-family products are very competitive vis-à-vis new single-detached units and thus demand will remain very robust. For example, a typical semi-detached home absorbed in the past six months for about three-quarters of the average price of a new single-detached unit.

Rising Costs Push New Condo Prices Higher

With the construction sector operating at extremely high levels across the province, builders of new medium- and high-density multi-family units are experiencing considerable price pressures this year. CMHC's market absorption survey shows that the

Edmonton condo market is demonstrating strong upward price movement, with the majority of new condominiums now selling for over \$250,000. New wood-frame walk-up condos which marketed for just over \$200 per square foot in 2006 are now advertising for close to \$300 per square foot, on average. Meanwhile, concrete high-rise units which sold for around \$325 per square foot last year are now marketing for well over \$400 per square foot. Soaring costs for labour, appropriately zoned building sites, concrete, steel and a host of other building products are forcing prices upward in this heated Alberta economy.

Resale Market

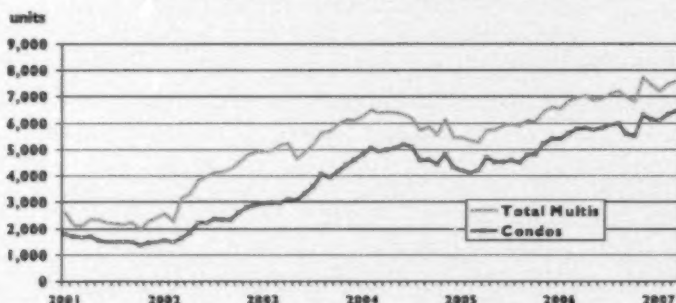
Existing Home Sales Record in 2006 Will Be Broken This Year

For the fourth year in a row, residential sales reported by the Edmonton Real Estate Board's (EREB) in 2006 set a new benchmark. At 21,984 units, total home sales on the MLS® surpassed 2005's record tally by 18 per cent. Strong immigration, a buoyant local economy, low new home inventories and a very tight rental market all contributed to this historic performance. Thanks to improved inventories, sales in 2007 will eclipse last year's record before pulling back in 2008 as an increasing number of price-sensitive buyers have trouble qualifying despite extended amortization periods and minimal down payment requirements. Continued price escalation is also creating a sense of urgency in the market, providing an additional boost to demand this year.

Fewer new listings in 2006 combined with a growing number of sales continued to work to the vendor's advantage. The annual average for the

Figure 3

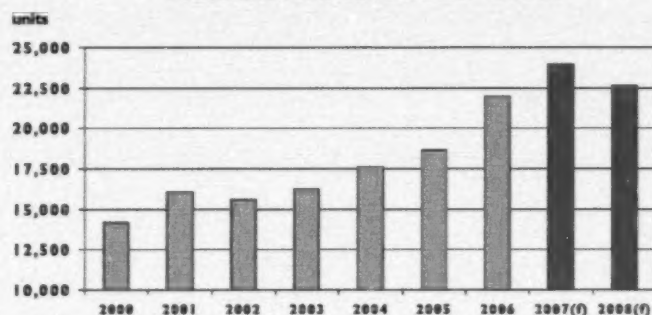
Multiples Under Construction



Source: CMHC

Figure 4

Total Residential MLS® Sales



Source: EREB, CMHC Forecast

EREB's sales-to-new-listings ratio hit a record 87 per cent in 2006, up from 72 per cent in 2005 and 67 per cent in 2004. With the months of supply numbers near record lows throughout much of the year, resale prices responded accordingly. The average residential resale price rose by 29 per cent in 2006 to \$250,915. Extremely tight conditions in the first quarter of 2007 have caused prices to rise even faster this year. Look for the year to end with residential resale price of close to \$340,000, representing an increase near 35 per cent. This will represent the strongest annual price increase on record. In 2008, price gains will slow as supply levels continue to improve.

Single-Detached Sales Remain Strong

Single-detached resale activity also hit a new benchmark in 2006, overshadowing 2005's record sales level by nine per cent. This occurred despite a 3.5 per cent drop in total new listings during the year. The low supply levels, relative to demand, put strong upward pressure on resale prices. Improved supplies of new listings entering the market will permit another record year on the MLS® in 2007. Next

year, sales will pull back by close to seven per cent as higher prices take their toll on demand from entry-level buyers but 2008 will still represent the second best year on record.

House Prices Continue to Accelerate in '07

In 2006, the average sale price of a single-detached home in Greater Edmonton increased by 33 per cent to an average of \$292,829. Existing single-detached units priced under \$150,000 largely vanished from the market place in 2006, while the lion's share of units changed

hands for prices above \$250,000. A continued tight market, relative to demand, will result in further price acceleration this year. A typical single-detached home will sell for close to \$400,000 this year, representing a record increase of \$100,000 over the average sale price set in 2006. Price increases will slow next year as inventories improve but the market will still register double-digit (per cent) gains.

Strong Demand for Resale Condos

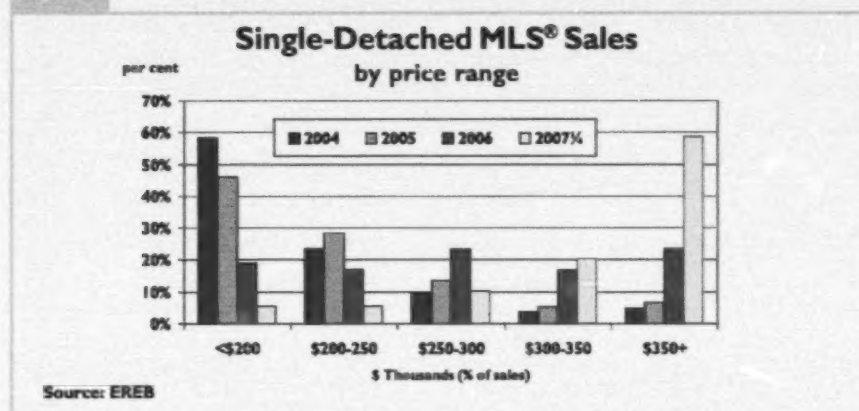
With prices for both new and existing single-detached homes experiencing strong growth in 2006, demand for resale condominiums jumped substantially last year. Following an eight per cent increase in 2005, MLS® sales soared by 35 per cent last year to a record 6,761 units. A tight rental market caused a big jump in rents across Metro last year and this also contributed to a growing interest in condominium ownership, both from first-time buyers and investors. This trend will continue in 2007 as condo sales on the MLS® surpass last year's record-setting performance.

Table 2
MLS SALES - SINGLE-DETACHED UNITS
January - December (% chg 2005/2006)

	Sales			Average Price (\$)			Median Price (\$)		
	2005	2006	%chg	2005	2006	%chg	2005	2006	%chg
Northwest	448	460	2.7%	184,894	258,081	39.6%	174,300	248,650	42.7%
North Central	1,822	2,150	18.0%	210,271	284,387	35.2%	201,500	274,000	36.0%
Northeast	609	682	12.0%	173,454	242,414	39.8%	167,500	233,750	39.6%
Central	538	732	36.1%	140,138	187,403	33.7%	129,550	170,500	31.6%
West	1,177	1,164	-1.1%	264,488	352,393	33.2%	230,250	320,050	39.0%
Southwest	1,572	1,667	6.0%	299,415	396,568	32.4%	269,900	364,100	34.9%
Southeast	1,773	1,972	11.2%	211,837	289,083	36.5%	202,500	282,000	39.3%
St. Albert	956	1,013	6.0%	259,587	342,002	31.7%	238,500	320,000	34.2%
Sherwood Park	942	861	-8.6%	256,725	346,606	35.0%	243,000	332,500	36.8%
Leduc	290	240	-17.2%	201,210	268,559	33.5%	186,250	266,450	43.1%
Spruce Grove	366	416	13.7%	202,772	278,000	37.1%	193,500	269,900	39.5%
Stony Plain	215	232	7.9%	215,974	273,760	26.8%	210,000	262,000	24.8%
Ft. Saskatchewan	213	208	-2.3%	202,570	300,503	48.3%	190,000	275,000	44.7%
All EREB areas	12,504	13,643	9.1%	220,347	292,829	32.9%	207,500	279,900	34.9%

Source: Edmonton Real Estate Board

Figure 5



Last year, new listings did not keep pace with condo sales during the year, resulting in an extreme imbalance between supply and demand. The sales-to-active-listings ratio averaged above 100 per cent for much of the year. Resale prices jumped accordingly, rising last year by 31 per cent over 2005's record to an average \$185,131. Condo units priced over \$200,000 saw their market share increase from 10.5 per cent of sales in 2005 to around one third in 2006. The situation for buyers has not improved in the first quarter of 2007, with over two-thirds of units selling on the MLS® for over \$200,000. With months of supply numbers expected to remain exceedingly low, look for price growth in 2007 to exceed last year's record-setting pace, with the average condo price hitting \$260,000.

Rental Market Tight Market Pushes Rents Higher

Following a moderate decline in 2005, apartment vacancies tumbled in Edmonton last year to the lowest point since 2001. The apartment vacancy rate in the Edmonton region fell from 4.5 per cent in October 2005 to 1.2 per cent in 2006. Expect further declines this year

as demand for rental units outstrips the supply of new product coming onto the market. A rapidly expanding economy has resulted in tight labour market conditions and the high volume of newcomers has bolstered demand for rental units. Meanwhile, soaring house prices have pushed up the cost of homeownership for many renters. On the supply side, rental apartment completions have fallen due to a slowdown in starts. In addition, a number of rental units have been converted to condominium, further reducing the supply of apartments available for rent. CMHC expects to find an apartment vacancy rate of 0.7 per cent this October, representing the tightest rental market since 1977. Further declines are expected in 2008 due to continued

strong demand and a shortage of new units entering the market.

During 2004 and 2005, rent increases were minimal across the region due to the high vacancy rates produced by the apartment building boom of 2002 to 2003. However, with vacancies declining rapidly across Edmonton last year, landlords gained the upper hand and made up for the lost ground experienced in the two previous years when costs were outpacing rental income gains. In monetary terms, rents increased on average by \$65 per month last year compared with a typical increase of only \$9 and \$8 dollars respectively in the 2005 and 2004 surveys.

In 2007, very tight conditions will result in further rent increases of near \$162 per month for the average two-bedroom rental apartment. In 2008, expect rents for a typical two-bedroom apartment to increase by close to \$130 per month, reaching an average of \$1,115 per month.

Economic Overview Robust Economic Expansion Continues

Economic and demographic conditions across Alberta will remain favourable for the housing industry this year and in 2008,

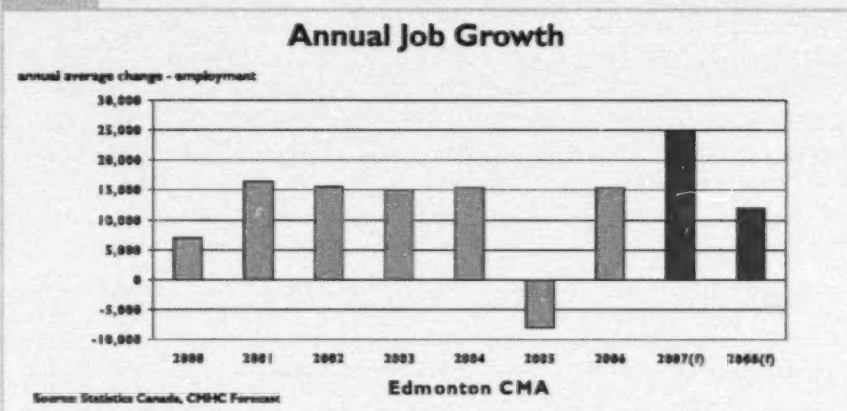
Figure 6



although rapid price gains will serve to inhibit demand. Despite a softer pace of economic growth compared with 2006, Alberta will remain among the top economic performers through 2008. A moderate retreat in energy prices will cool economic growth from a lofty 6.5 per cent last year to 4.5 per cent in 2007 and 4.0 per cent in 2008. A commercial construction boom will be a notable contributor to GDP growth through 2008, compensating for modestly weaker housing starts. In addition, rapid population growth and impressive wage gains will further boost to personal consumption, albeit at a lesser rate than 2006 as some income gets reallocated toward mortgage carrying costs. International migration will continue to climb over the forecast period, but migrants from other provinces will lessen due to the growing disparity in provincial house prices and improved economic performances in competing areas.

Economic growth across the Alberta Capital region will remain on the fast track this year and in 2008 thanks to an ever-expanding investment boom in the province's energy sector. High current and projected oil prices are fuelling massive capital investment projects both within Metro Edmonton and in the northern half of the province. Oilsands (bitumen) and heavy oil industries are the driving forces behind these developments, with growth in these areas resulting in current and future expansions in pipelines, upgraders and refineries. The region's rapid population growth has resulted in a boom in infrastructure spending. While most municipalities have welcomed these expenditures by higher levels of government, the resulting surge in building activity has pushed construction input costs skyward.

Figure 7



Net migration into Metro Edmonton increased by over 50 per cent in 2006, as strong job creation and low unemployment drew thousands of newcomers from outside of Alberta. Expect a moderating trend both this year and in 2008 as the surging cost of accommodations relative to many areas across the country discourages some potential in-migrants from making the move into Alberta. This said, the overall volume of net migration will remain high by historical standards and will thus support continued strong demand for housing across the region.

Job creation rebounded substantially in 2006 following the poor performance in 2005. The new job numbers surged in the first quarter of 2007 and we anticipate a big improvement this year over the gains reported in 2006. Look for continued albeit moderating employment growth in 2008, with the majority of the increases in full-time positions. The unemployment rate will remain below 4.0 per cent in 2007 and increase next year only modestly above the average 3.9 per cent reported in 2006. The tight labour markets will put continued upward pressure on wages.

Mortgage Rates remain low

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2008.

Short-term mortgage rates will also ease as the prime rate nudges down over the next twelve months while the long-term mortgage rates will rise slightly in line with bond rates.

One, three and five-year posted mortgage rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively over the rest of this year and in 2008.

Forecast Summary Edmonton CMA Spring 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	17,652	18,634	21,984	24,000	9.2	22,600	-5.8
MLS® New Listings	26,268	25,820	25,393	28,000	10.3	29,000	3.6
MLS® Average Price (\$)	179,610	193,934	250,915	340,000	35.5	374,000	10.0
New Home Market							
Starts:							
Single-Detached	6,614	7,623	9,064	8,150	-10.1	7,500	-8.0
Multiples	4,874	5,671	5,906	6,000	1.6	5,500	-8.3
Starts - Total	11,488	13,294	14,970	14,150	-5.5	13,000	-8.1
Average Price (\$):							
Single-Detached	242,171	268,252	308,726	415,000	34.4	495,000	19.3
Median Price (\$):							
Single-Detached	222,500	248,300	282,500	372,500	31.9	444,000	19.2
New Housing Price Index (% chg.)	4.3	6.5	28.9	28.0	-	14.9	-
Rental Market							
October Vacancy Rate (%)	5.3	4.5	1.2	0.7	-	0.5	-
Two-bedroom Average Rent (October) (\$)	730	732	808	970	20.0	1,115	14.9
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.40	-	6.29	-
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	6.63	-	6.80	-
Annual Employment Level	553,800	545,800	561,300	586,300	4.5	598,300	2.0
Employment Growth (%)	2.9	-1.4	2.8	4.5	-	2.0	-
Unemployment rate (%)	4.8	4.5	3.9	3.8	-	4.0	-
Net Migration	5,960	13,771	21,080	19,000	-9.9	15,500	-18.4

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